

To Zheng Hong  
 (603) 7890 8888 (ext 2099)  
[zhenghong.to@apexsecurities.com.my](mailto:zhenghong.to@apexsecurities.com.my)

4Q25 Advance GDP Growth:	+5.7%
2025 GDP Growth Forecast:	+4.7%
2026 GDP Growth Forecast:	+4.3%
2025 Export Growth:	+6.5%
2026 Export Growth Forecast:	+4.8%
11M25 Unemployment Rate:	3.0%
2025 Unemployment Rate Forecast:	3.0%
2026 Unemployment Rate Forecast:	3.1%
2025 Headline Inflation:	+1.4%
2026 Headline Inflation Forecast:	+1.8%
End-2025 OPR	2.75%
End-2026 OPR Forecast:	2.75%

## Malaysia Industrial Production

### Increasingly positive outlook for 2026

- The Industrial Production Index (IPI) rose +4.8% YoY in December (Nov: +4.3%), beating market expectations of +4.5%, driven by firmer manufacturing output.
- The export-oriented cluster posted another strong performance, supported mainly by E&E, while the domestic-oriented cluster held steady at +4.9% YoY (Nov: +4.9%).
- An improving global backdrop amid the AI-driven tech upcycle, coupled with resilient domestic demand, should continue to support Malaysia's manufacturing sector.
- We remain cautiously optimistic as global trade dynamics stay fluid, with the AI tech upcycle, intermittent trade tensions, potential semiconductor tariffs and the pending US Supreme Court ruling on tariff legality among the key moving parts.
- We keep our GDP forecasts at +4.7% YoY for 2025 and +4.3% for 2026 for now. That said, recent domestic indicators suggest upside to our growth forecast.

### Manufacturing remains the bright spot

IPI extended its firm momentum, rising +4.8% YoY in December (Nov: +4.3%), beating market expectations of +4.5%. The expansion was driven by firmer manufacturing output (+6.7%; Nov: +4.9%) and electricity production (+3.7%; Nov: +2.7%), partly offset by a contraction in mining (-2.5%; Nov: +2.3%).

For full-year 2025, IPI grew +3.6% YoY (2024: +3.7%), with manufacturing (+4.5%; 2024: +4.3%) surprising on the upside despite external headwinds following US tariff implementation in 2H25.

### Export-oriented sector extended its uptrend

The export-oriented cluster posted another strong performance, consistent with the +10.4% YoY surge in December nominal exports. On a 3-month moving average (3MMA) basis, export-oriented output rose +6.5% (Nov: +5.7%), supported by firmer gains in "computer, electronics & optical products" (+12.7%; Nov: +11.2%), "electrical equipment" (+11.7%; Nov: +11.3%) and "vegetable & animal oils and fats" (+12.1%; Nov: +8.8%). Notably, the export-oriented cluster has been on an uptrend since August 2025, suggesting an improving external backdrop.

Meanwhile, domestic-oriented cluster held steady at +4.9% YoY (Nov: +4.9%). Stronger growth in "basic metals" (+7.2%; Nov: +6.8%) and "transport equipment" (+4.3%; Nov: +3.8%) offset weaker "food processing products" (+8.9%; Nov: +9.1%) and a steeper decline in "paper & paper products" (-2.7%; Nov: -1.8%).

### AI-led tech upcycle anchors external demand

The sustained strength in export-oriented cluster reinforces our cautious optimism on the manufacturing outlook heading into 2026. The global economy has proven more resilient than expected, underpinned by the AI-driven technology upcycle. The World Bank recently revised its 2026 global growth forecast higher by 0.2ppt to +2.6% YoY (2025: +2.7%), led by firmer US growth (+2.2%; 2025: +2.1%).

An improving global backdrop should continue to lift Malaysia's manufacturing sector, in which the export-oriented cluster accounts for c.46% of total manufacturing output. Malaysia's manufacturing PMI rose further to 50.2 in January (Dec: 50.1), with new export orders expanding for the first time in five months, consistent with the improving external narrative. Business sentiment rebounded considerably, with firms expecting stronger demand and new contracts.

On the domestic front, resilient economic activities should continue to support domestic-oriented industries. Stronger tourism flows amid Visit Malaysia 2026, alongside ongoing policy support measures, including the RM100 SARA payments totalling RM2.2bn in February, should help lift household income and spending.

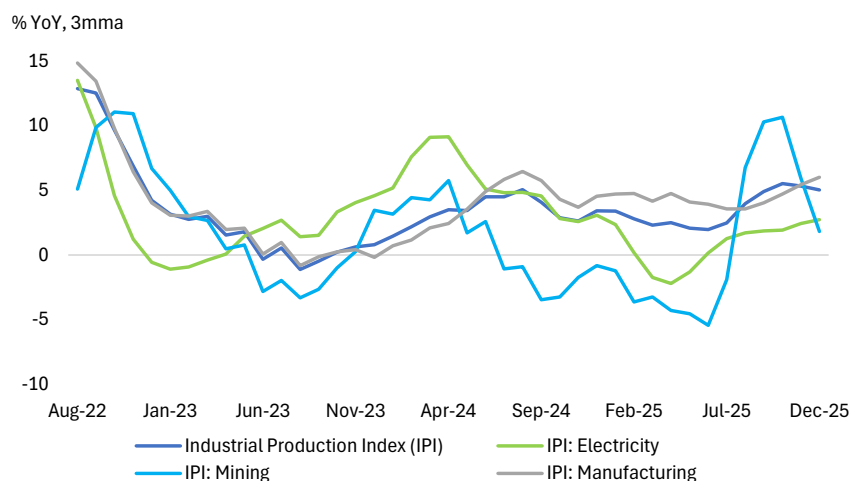
## External risks remain fluid

Our cautious optimism is broadly in line with BNM's view that the external sector will remain the key swing factor in 2026 (refer to our [BNM MPC Meeting report](#)). Global trade dynamics remain fluid, with the AI tech upcycle, intermittent trade tensions, potential semiconductor tariffs and the pending US Supreme Court ruling on tariff legality among the key moving parts that could shift Malaysia's manufacturing outlook in either direction. We also note that part of the recent strength in industrial output may reflect some front-loading of production ahead of festive demand.

## Potential revision to our 2026 growth forecast

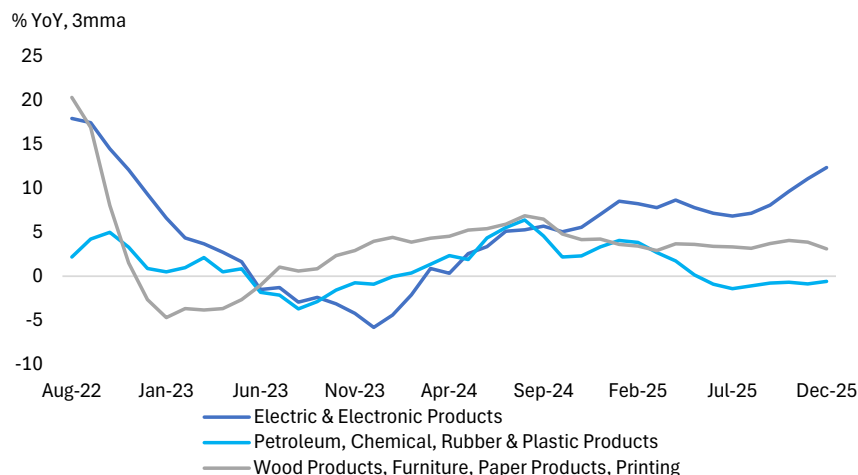
Overall, the steady industrial production reinforces expectations of a solid 4Q25 GDP print due on 13 February. We keep our GDP forecasts at **+4.7% YoY for 2025** and **+4.3% for 2026** for now. That said, the recent slew of stronger indicators **increasingly suggest upside to our 2026 growth forecast**, pending outcome from the upcoming 4Q25 GDP release.

**Figure 1: Manufacturing output accelerated in December**



Source: Department of Statistics, Apex Securities

**Figure 2: Export-oriented industries rose in December**



Source: Department of Statistics, Apex Securities

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## Recommendation Framework:

**BUY:** Total returns\* are expected to exceed 10% within the next 12 months.

**HOLD:** Total returns\* are expected to be within +10% to – 10% within the next 12 months.

**SELL:** Total returns\* are expected to be below -10% within the next 12 months.

**TRADING BUY:** Total returns\* are expected to exceed 10% within the next 3 months.

**TRADING SELL:** Total returns\* are expected to be below -10% within the next 3 months.

\*Capital gain + dividend yield

## Sector Recommendations:

**OVERWEIGHT:** The industry defined by the analyst is expected to exceed 10% within the next 12 months.

**NEUTRAL:** The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

**UNDERWEIGHT:** The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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## ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.

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